cc N.O

2

Prime Minister

Another programme where no savings are offered.

MCS 31/3

CONFIDENTIAL

PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE

Your minute of 4 February asked Ministers to report to you on possibilities for substantial reductions in public expenditure in the longer-term future.

The Chancellor's paper of 3 September (C(82)30) foreshadowed an increase in public expenditure by 1990 of at least £12 billion. I recognise the need for this Department, in common with others, to scrutinise its costs very carefully. But we did not contribute to the estimated £12 billion increase, so that nothing we could do would have any significant effect on the overall figures.

I should stress one point of central importance. Economic recovery in this country, and indeed in the world as a whole, will be very much dependent upon export trade. In our own case a growth in our exports will provide a clear and obvious contribution to the expansion both of industrial output and employment opportunities. The fact is not lost on our overseas rivals, whose competition in the export field is becoming increasingly sharp. Against this background, there is a strong case - matched by industry's growing demands - for a substantial increase in our expenditure in support of exports. I might well, therefore, need in due course to make a bid for a significant increase in resources.

Our aid programme, as the Foreign Secretary has pointed out in his minute of 29 March, is important. Clearly, I particularly consider that where aid is given it should so far as possible be tied. But whatever the aid provision, there will be a real need for enhanced export assistance which is not specifically aid-related.

CONFIDENTIAL

.... More generally, I attach notes about the Department of Trade and
.... the Export Credit Guarantee Department - both of which have been discussed with the Treasury. Exports aside, the following points should be highlighted:-

(i) British Airways

Our objective remains to return the airline to profitability and privatise it as soon as possible; the PSBR benefits are obvious.

(ii) Other Privatisation Plans

Airports are an example; the expenditure consequences may be relatively modest, but the impact on the overall business climate is important.

(iii) Tourism

We expect some structural changes as a result of Iain Sproat's review, but no substantial savings. This is more a matter of reallocating resources in a more cost-effective way.

(iv) Fee-Paying Activities

We will continue to ensure that so far as possible fees cover costs. Indeed, there is a case to be made for more resources provided the cost is met by increased receipts from fees.

(v) ECGD

A great deal of its activities are conditioned by factors outside its control; ie the state of the world economy and international interest rates. We will continue, for example through the Consensus negotiations, to keep costs under control, but we simply cannot act unilaterally in a way which would prejudice the competitiveness of our exporters.

I am copying this to the Chancellor, the Foreign Secretary, the Chief Secretary, and the Secretaries of State for Defence, the Environment and Scotland.

A.C.

Department of Trade
1 Victoria Street
London, SW1H OET

LORD COCKFIELD

31 March 1983

LONG TERM PUBLIC EXPENDITURE

A Review of Department of Trade
Expenditure Programmes

EXPORT PROMOTION

1. Market Entry Guarantee Scheme - Negotiations with a private sector party continue but the economics of this scheme make it unattractive unless the terms were altered in a way which made it less useful to the exporters, or the Government provided (paid for) the guarantee. Current expenditure is £1.8m a year gross with revenue of £0.5m.

2. Other possibilities - Administrative improvements continue to be incorporated into the joint venture activity and contracting out is not considered to be justified. The implications of using private sector sources for certain kinds of market information (Overseas Trade and Regulations) would be negligible.

3. Simplification of Trade Procedures Board (SITPRO) Work is continuing on the expansion of SITPRO's revenue earning capabilities, possibly as a preliminary to hiving off certain activities. The intention is to reduce the Board's reliance on grant-in-aid (some £510,000 in 1982/83) in future years. This will be reflected in the 1983 PES.

PROTECTION OF INNOVATION

4. Work is continuing on the possibility of contracting out the publication and distribution of patent specifications. Through HSMO an approach has been made to the four firms who are under contract to print UK patent specifications and direct approach has been made to the Licence Reference Library. No interest has been shown in taking over the Patent Office's responsibility for the sale and distribution of current and past issues but two of the printing firms have evinced clear interest in the initial distribution of patent specifications and estimates are being sought of their charges for this service. In addition we have received a tentative offer to carry out the task of photographically reproducing the specifications of granted UK patents which would otherwise be done in-house. However the indications are, so far, that it would not be cost-effective to have this task done by the private sector.

5. In the circumstances the effect on PES 1983 and later years cannot yet be quantified but, given the size of the operations in question, it is likely to be minimal.

REGULATION OF TRADING PRACTICES AND CONSUMER PROTECTION

6. Insolvency Service - The Report of the Insolvency Law Review Committee under the Chairmanship of Sir Kenneth Cork (published June 1982) is still under consideration. The Report suggests that its recommendations for dealing with insolvency, both for the individual debtor and company areas, would result in substantial reduction in the work of the Official Receiver. Doubts have been expressed about this. Indeed it is considered that implementation of the Report's recommendations could lead to a considerable amount of additional work for the department, possibly leading to a requirement for as many as 600 additional staff. The Report moreover strongly argues against the removal of backruptcy from the work of the Insolvency Service (an arrangement that would save 500/600 posts). This was the provision which was contained in the Insolvency Bill which was withdrawn in the 1981/82 session following doubts expressed by the Lord Chancellor and other Ministers and representations from the accountancy profession and the Opposition based on the judgment that the withdrawal represented a denial of justice to the individual debtor. All these matters need careful consideration and it is not possible to speculate what the final outcome might be.

7. Companies Registration Office - Tentative discussions with a number of organisations have failed to elicit any firm proposals for privatisation of the public search service. A number of ideas designed to improve access to the record are being explored but it would be premature to seek to quantify any benefits in the Survey or later years at this stage.

8. Film Industry Controls - The review of these controls will not be completed until the end of June. Reduction in the number of controls is probable (screen quota has already been suspended) but it is not yet possible to be more specific. The expenditure consequences in the immediate future could be adverse although the amounts involved would not be significant. In any case the number of cinemas (who pay licence fees) is falling fast and the revenue would diminish even if the controls were retained.

PROMOTION OF TOURISM

9. Firm conclusions have not yet emerged on the various issues which arose during Mr Sproat's review of tourism policy. There are certainly some areas in which further savings are foreseen in the amounts of grant-in-aid paid to the British Tourist Authority and the English Tourist Board. However Ministers are also envisaging increased assistance to tourist projects under Section 4 of the Development of Tourism Act 1969 and it may be that the Department will wish to allow headroom for the British Tourist Authority, in particular, to increase its promotional spend in future years. The longer term expenditure consequences

may be expected to be broadly neutral and there is no intention to seek any increase in the total Departmental provision for tourism in the 1983 PES period. At most the Department would wish to retain the existing allocations, but to vary the shares enjoyed by the individual elements. The aim would be to make savings in the administration costs of the BTA and ETB - especially where there is scope for rationalisation between the two bodies - and increase, correspondingly, the assistance available at the sharp end, particularly in overseas promotion and support of individual tourism projects in England.

SHIPPING SERVICES

10. Reduction in involvement in seamen's conditions of service -

Consideration is being given to three repeals relating to: settling disputes about pay (Section 10 of the Merchant Shipping Act 1970); other complaints by seamen (Section 23 of MSA 1970); and the Deceased Seamen's Property Regulations. The first two items would require primary legislation; they could be included in the major Merchant Shipping Bill to be introduced in the Spring of 1984 or in earlier legislation if a suitable opportunity can be found. There would be no resultant staff savings or reduction in expenditure however. It is proposed to revoke the Regulations as soon as possible and this will achieve a saving of one post in 1983/84 and subsequent years.

11. Further devolvement of ship surveys and marine equipment approval to classification societies - This is being considered. If it is decided to proceed with the total delegation of statutory surveys to Lloyd's Register a reduction of some 80 professional and 40 support staff would be achieved in the longer term, some savings falling in the 1983 PES period. There would be no net reduction in public expenditue since the corresponding statutory survey fees, which are changed on a full cost recovery basis, would be lost.

12. Further devolvement of the actual setting and conduct of seafarer's examinations - This is also being considered. One possibility currently being pursued is the holding of written examinations at certain colleges rather than in the Division's Marine Offices. Some savings in accommodation costs would result but they cannot be quantified at this stage.

CIVIL AVIATION SERVICES

13. Implications of the Privatisation of British Airways - It would be difficult to make any provision in the immediate future to cover the implications of the privatisation of British Airways given the uncertainty both as to the timing of any flotation and as to the proceeds. The latter could be substantial, but it is too early yet to forecast their size.

14. Privatisation of CAA's Highlands and Islands Aerodromes - The Chairman of the Civil Aviation Authority has been requested to draw up detailed proposals for the disposal of these aerodromes, with a timetable for their implementation, by the end of March. The Department has been working together with the CAA and the Scottish Development Department to collate information on the aerodromes. Informal contacts have suggested that there are a number of potential buyers. The aerodromes have, with one exception (Sumburgh) never been in a position to cover their total operating costs unaided and the CAA currently receives a subsidy from the SDD. Privatisation would not have any foreseeable expenditure implications for the Department of Trade though the SDD hope that privatisation will leadto a reduced requirement for their subsidy which is given for social reasons.

15. Airports - A small working party of officials is being established to examine in more detail a range of options both for the privatisation of the British Airports Authority (BAA) and for a possible wider reorganisation/privatisation of the airports industry as a whole. No final decisions have been taken on these possibilities and present policy and expenditure plans are predecated on the continuation of the BAA and local authority airports as now constituted. HOwever a sale of BAA assets could yield substantial proceeds though this cannot be quantified at this stage. The current Ministerial review of local government reorganisation might have implications for the Metropolitan County Councils which own partially or wholly a number of major regional airports but it is presently envisaged that responsibility would pass to Districts Councils or joint Boards of Local Authorities with no impact as such on the public expenditue provision for local authority capital expenditure.

Department of Trade
March 1983

EXPORT CREDITS GUARANTEE DEPARTMENT

ECGD administers four public expenditure programmes. These are

(i) the cost escalation scheme which protects exporters against certain cost increases arising under export contracts for large capital goods;

(ii) the mixed credit matching facility designed to enable UK exporters to match foreign competition offering concessionary terms;

(iii) the payment of interest rate subsidies on unrefinanced fixed rate export lending; and

(iv) the refinancing of fixed rate export lending undertaken by the banks under earlier export financing schemes.

COST ESCALATION SHCEME

Neither the cost escalation scheme nor the mixed credits matching facility offers scope for significant reductions in the longer term below the cost detailed against these schemes in the latest PES White Paper. This is primarily because the costs for both schemes are relatively small: £5-6m in each year for the mixed credit facility and, for cost escalation, £12.6m in 1983/84, £6.85m in 1984/85 and -£2.4m in 1985/86. Since the cost escalation figure relates to existing contractual commitments the only scope for reduction is if the level of inflation over the Survey period were to prove lower than the assumptions used in the Survey. Withdrawal of the facility (which has now been extended by Parliament to embrace new agreements entered into up to March 1984) would therefore have no impact unless inflation were to rise to a significantly higher level than had been assumed. Were this to happen it would lead not only to an unavoidable increase in expenditure on existing commitments but could also result in a much greater uptake of cover by exporters and a consequent increase in expenditure on those new commitments. Withdrawal of the facility would therefore effectively achieve only a contingent saving on additional public expenditure that might otherwise be necessary.

MIXED CREDITS MATCHING FACILITY

Whilst no expenditure has yet been committed or incurred on the mixed credits matching facility, its withdrawal would allow the £5-6m provision to be deleted from future public expenditure plans. This modest level of expenditure does however seem insufficient to justify such action when this is set against the potential benefit offered by the scheme in enabling British exporters to rapidly match conessionary credit offers made by their foreign competitors.

INTEREST RATE SUBSIDIES

This is the largest single ECGD programme, which reached a peak of £587m in 1981/82. Because of the interest rate assumptions used in the Survey, expenditure on this scheme is expected to fall throughout the existing Survey period as follows:-

1982/83	1983/84	1984/85	1985/86
£410m	£300m	£121m	£11m

As with cost escalation, much of this expenditure relates to existing commitments. A reduction in expenditure will arise only if actual interest rates in the UK and US prove to be lower than assumed. On new business, whilst the level of market interest rates is a crucial factor, expenditure will also be determined by the level of the fixed interest rates for export credit agreed under the terms of the international Consensus. In July 1982 these rates were increased substantially to between 10% and 12.4%, much closer to the level of average markets rates than had been the case before.

Ministers are agreed that efforts should be made to achieve progressive reductions in subsidy on a multilateral basis. It is impossible to predict the chances of international agreement or to put any figure on the savings that might accrue.

Thus, apart from savings resulting from a fall in interest rates, the scope for further long term reductions in expenditure on interest support is limited; although following a review of policy on export credit and related facilities, some new guidelines are to be introduced which are designed to contain the degree of subsidy risk.

Because of the high level of current Consensus interest rates ECGD is actively encouraging the greater use of export finance in low interest rate currencies such as DM, Swiss France and Japanese yen, for which no, or only limited, interest rate support is required from the Department. This process may be assisted by moves within the Consensus to expand the range of currencies which qualify for lower interest rate status even though official interest rate support is provided. To the extent that a switch out of the traditional financing currencies - sterling and the US dollar - is achieved, this could result in reduced expenditure on interest support. But once again, it is not possible to specify the level of such savings.

A fall in interest rates below those used in the Survey offers the only immediately realisable source of significant savings. A reduction on 1% in the assumed gap between Consensus and market rates occasioned by such a fall would result in the following substantial savings:-

1983/84	1984/85	1985/86
£98m	£115m	£131m

REFINANCING

In the recent past, significant progress has been made in transferring outstanding refinancing obligations under earlier export credit schemes to the private sector but these are now running off. [There has been no entitlement to refinance in respect of new business since 1 April 1980]. There is therefore little scope for further transfers and, in any event, Treasury are thought to have their own monetary reasons for not wishing to pursue this option.